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Report on the activities of the Office of Internal Oversight Services

Report of the Office of Internal Oversight Services on the audit of the application of the best value for money principle in United Nations procurement*

Summary

Pursuant to General Assembly resolution 60/259, the Office of Internal Oversight Services (OIOS) conducted an audit of the application of the best value for money principle in the Organization's procurement of goods and services.

The United Nations Financial Regulations and Rules list four main procurement principles, including best value for money. However, the Secretariat had not provided the legislative bodies with a clarification of the best value for money principle prior to its adoption. Nor has the principle been fully explained since its adoption. The failure to clarify the best value principle precluded legislative bodies and managers and staff of the Secretariat involved in the procurement process from sharing a common understanding of the results to be derived from its use in United Nations procurement.

While Member States have consistently expressed their commitment to increasing the Secretariat's procurement from developing countries and countries with economies in transition, OIOS determined that there is no specific evidence that the Secretariat reflected this commitment in applying the best value for money principle to procurement activities.

In order to achieve the best value for money, all suitable and available sources of goods and services should be given an opportunity to participate in the Organization's procurement. OIOS, however, concluded that there is currently no specific evidence that international competition is effectively achieved in procurement.

* The audit could not be completed on time due to the complex nature of the best value for money principle and its application in procurement.

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Although the best value for money principle is not clearly defined, the Procurement Manual sets out a weight-based methodology to achieve best value for money in evaluating bids received in response to requests for proposal. However, the Manual does not prescribe the use of the best value for money evaluation method for requests for quotation and invitations to bid, the two other types of solicitations used by the United Nations. In all cases tested by OIOS where the best value for money evaluation methodology was used, the contracts were awarded to the lowest bidders. The corresponding procurement files, however, contained insufficient documentation to demonstrate that a "best value" concept was properly formulated and translated into specific vendor evaluation criteria. Additionally, the best value for money method was used selectively presenting the risk that vendor evaluation criteria may be inconsistent.

The extent of supervision exercised by Procurement Division management to ensure the fullest application of the principle was not evident in the procurement case files. There was no clear audit trail in these files to demonstrate the transparency and integrity of the procurement process in general, and the use of the best value for money principle in particular. Management information on the application of the best value for money principle was not readily available in a comprehensive format, hindering efforts to monitor and assess its application.

The lack of an agreed understanding of the principle by all United Nations procurement stakeholders and insufficient documentation of the awards made using the best value for money evaluation method precluded OIOS from determining whether the best value for money principle has been applied in the Secretariat while ensuring that the other three procurement principles of fairness, integrity and transparency, effective international competition and the interest of the United Nations have been adhered to.

OIOS issued three recommendations to address the highlighted weaknesses. These recommendations take into consideration significant steps already taken by the Procurement Division to improve the use of the best value for money principle in United Nations procurement. The recommendations pertain to the need to further clarify the best value for money principle and to strengthen the management controls of the Procurement Division. *The Department of Management agreed with the OIOS assessment that certain areas of application of the best value for money principle in United Nations procurement are in need of improvement and accepted the broad recommendations made by OIOS.*

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I. Introduction

1. The General Assembly, in its resolution 60/259, requested the Secretary-General to entrust the Office of Internal Oversight Services (OIOS) to submit a report on the use of best value concept in the evaluation and award of procurement contracts in order to identify any possible misuse of the principle. In response to the resolution, OIOS undertook an audit of the application of best value for money principle in procurement at the United Nations Secretariat.

2. In planning the audit, OIOS identified two main categories of risks. First, the best value for money principle may have been insufficiently clarified prior to its adoption as part of the United Nations Financial Regulations and Rules, creating varying or conflicting expectations of the results to be derived from its use. The lack of an agreed definition eliminates any objective basis for an assessment of the use of the best value for money principle. Secondly, the methods developed by the Procurement Division of the Office for Central Support Services, Department of Management to evaluate vendors based on best value for money may have been applied inconsistently, and therefore may not have assured objectivity in the vendor selection process. Accordingly, the objectives of the OIOS audit were to determine whether the best value for money principle is clearly defined and consistently applied in awarding contracts.

3. OIOS analysed documentation available in the Secretariat pertaining to the best value for money principle, including the Financial Regulations and Rules, the Procurement Manual, and General Assembly and other official documents. OIOS surveyed procurement staff in the Procurement Division and the Chief Procurement Officers in all peacekeeping missions and offices away from Headquarters to determine their understanding of the best value for money principle and its application in the procurement process. OIOS also reviewed a sample of 20 procurement cases handled by the Procurement Division. Of those, 12 were selected from a listing of 110 procurement cases that had been reported to the General Assembly in the report of the Secretary-General on investing in the United Nations (A/60/846/Add.5) as contracts for which the evaluation was based on the best value for money methodology. The audit did not examine local procurement by peacekeeping missions and offices away from Headquarters.

II. Insufficient clarification of best value for money principle prior to its adoption by the General Assembly

4. Regulation 5.12 of the revised United Nations Financial Regulations and Rules (effective 1 January 2003) states:

> "The following general principles shall be given due consideration when exercising the procurement functions of the United Nations:
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> (a) Best value for money;
>
> (b) Fairness, integrity and transparency;
>
> (c) Effective international competition;
>
> (d) The interest of the United Nations".

5. Several United Nations documents discuss the best value for money principle in connection with the adoption by the General Assembly of the revised Financial Regulations and Rules. In paragraph 45 of the report of the Secretary-General on procurement reform (A/52/534), perhaps the first to deal with the subject, it is stated that, "while there is a great emphasis on timely procurement with the best value for the money, the current rules and regulations, the additional demands often imposed by oversight bodies and the budgetary constraints and unavailability of funds, particularly at the start of new operations, have often created serious difficulties in the procurement process". Subsequently, in 1997, the Procurement Working Group of the Task Force on Common Services,[1] established by the Secretary-General as part of his reform agenda for the Organization, drafted revised procurement-related regulations and rules. In paragraph 37 of the report of the Secretary-General on common services (A/55/461) it is stated that, "in its continuing effort to promote procurement reform, the Working Group has developed a new, simplified framework of financial regulations and rules for procurement incorporating the concepts of Chief Procurement Officer and 'value-for-money'".

6. The Advisory Committee on Administrative and Budgetary Questions, in its report dated 6 October 2000 (A/55/458), requested the Secretariat to provide clarification on the work of the Procurement Working Group of the Task Force on Common Services. In paragraph 11 of its report the Advisory Committee specifically comments "as further indicated [by the Secretariat] to the Committee, this concept [of best value for money] would replace the present criteria of 'lowest acceptable bid' in the evaluation of offers by factoring into the evaluation other relevant criteria, besides price, that determine true value, such as life cycle and maintenance costs". OIOS noted that at the 26th meeting of the Fifth Committee, held on 18 November 2002,[2] an exchange of views between the then Chairman of the Advisory Committee and the Controller took place, and that the Advisory Committee's concerns had been taken into account in the proposed revisions to the Financial Regulations and Rules and were reflected in the report before the Fifth Committee. OIOS, however, was unable to find any documentation submitted by the Secretariat addressing the request of the Advisory Committee for clarification. The principle was therefore not fully defined by the Secretariat prior to its adoption by the General Assembly.

7. OIOS obtained from the Procurement Division some of the records of the Procurement Working Group of the Task Force on Common Services, which show attempts to define best value for money. Version 11, dated 21 May 1999, of the draft Procurement Regulations and Rules stipulates the principle "best value for money, considering all relevant factors, including costs and benefits to UNXXX".[3] In version 14, dated 15 June 1999, the principle is defined as "best value for money, by considering for each procurement requirement the most cost-effective means of carrying out the procurement process and by weighing all relevant costs and benefits of each individual offer". Version 16, dated 12 August 1999, is identical to existing

[1] The Procurement Working Group of the Task Force on Common Services comprised all United Nations entities with headquarters in New York (the Secretariat, the United Nations Development Programme, the United Nations Population Fund, the United Nations Children's Fund and the United Nations Office for Project Services.

[2] A/C.5/57/SR.26.

[3] UNXXX is any of the United Nations entities participating in the Procurement Working Group of the Task Force on Common Services.

Financial Regulation 1.2 and does not include an explanation of the principle. It is, however, apparent from the records reviewed by OIOS that the Procurement Working Group initially felt the need to define best value.

8. The lack of clarification of the best value for money principle, prior to its adoption by the General Assembly, precluded legislative bodies and managers and staff of the Secretariat involved in the procurement process from sharing a common understanding of the results to be derived from its use in United Nations procurement.

9. The January/May 2006 version of the Procurement Manual defines best value for money as "one of the four general principles of Financial Regulation 5.12 to be given due consideration in the exercise of the procurement function. After all relevant costs and benefits of the complete procurement exercise have been considered, the bid or proposal which is to be assessed as providing the best value for money usually should become apparent". In the view of OIOS, this definition provides insufficient clarification of the principle, which hinders at this time an objective assessment of its use. By comparison, the United Nations Development Programme Procurement Manual (User Guide) defines best value for money as the "selection of the offer, which presents the optimum combination of life-cycle costs and benefits, which meet the Business Unit's needs ... The Business parameters can also include social, environmental and other strategic objectives defined in the procurement plan".

10. Following receipt of a preliminary version of this report in November 2006, the Procurement Division provided OIOS with a draft procurement policy, which includes the following definition of best value for money: "optimization of whole-life costs and quality needed to meet the user's requirements, while taking into consideration potential risk factors and resources available". In the view of OIOS, the definition of best value for money should be considered by the General Assembly, to ensure that it properly reflects Member States' expectations of results.

III. Restrictive application of best value for money evaluation method to solicitations using request for proposal

11. The Procurement Manual prescribes the application of the best value for money evaluation method to request for proposal solicitations only, which indicates that the best value for money evaluation method is not considered suited for universal application, as shown in the following excerpt:[4]

> (a) The UN utilizes one of three standard documents as Solicitation Documents, each to be used for different types of procurement.
>
> (b) Each format is based upon a consideration of the four principles of Regulation 5.12. The specific technical considerations and actual monetary thresholds are as follows:
>
> > (a) Request for Quotation (RFQ) shall be used for the procurement of simple, uncomplicated goods of standard and firm specifications of total estimated value not exceeding $30,000.

[4] Procurement Manual (January/May 2006 version), section 9.4 (2).

(b) Invitation to Bid (ITB) shall be used for the procurement of goods and services of standard and firm specifications of the total estimated value in excess of $30,000. The contract shall be awarded under Financial Rule 105.15(a) to the "qualified bidder whose bid substantially conforms to the requirements set forth in the solicitation documents and is evaluated to be the lowest cost to the UN."

(c) Request for Proposal (RFP) shall be used for the procurement of deliverables that cannot be quantitatively or qualitatively expressed in sufficient detail to allow use of an ITB at the time the solicitation document is issued. An RFP shall also be used in the case of outsourcing non-core activities and services. The contract shall be awarded, under Financial Rule 105.15(b), "to the qualified proposer whose proposal, all factors considered, is the most responsive to the requirements set forth in the solicitation documents." The evaluation shall be in accordance with given weights and factors, i.e. "best value" evaluation would be in the best interests of the UN, not necessarily the lowest cost.

12. Section 11.6.1 of the Procurement Manual states that for request for quotation and invitation to bid solicitations, the best value for money "shall consist in issuing an award to the qualified bidder whose bid substantially conforms to the requirements set forth in the solicitation documents and is evaluated to be the lowest cost to the UN". However, the Manual does not set out a specific best value evaluation method for these solicitation types. On the other hand, it includes detailed procedures for applying the best value for money evaluation method when bids are received in response to request for proposal solicitations. The method consists of an evaluation based on the weighted score between price and technical factors. OIOS did not find any justification by the Secretariat for not applying a similar methodology to request for quotation and invitation to bid solicitations. In the view of OIOS, bid evaluation criteria for any type of solicitation (request for proposal, invitation to bid or request for quotation) should include all factors deemed relevant by the United Nations that, as formulated by the Advisory Committee, determine true value, such as life cycle and maintenance costs (see para. 6 above). The Procurement Manual should therefore clarify the application of best value for money evaluation method in respect of all methods of solicitation.

IV. Need for strengthening the selection of solicitation method to improve the use of best value for money

13. Since solicitation documents serve as a basis for using the best value for money evaluation method, proper care should be taken to ensure that the selection of a particular solicitation type is valid, authorized and documented. OIOS, however, found weaknesses in this area. The Manual does not indicate the level of approval required to issue the solicitation documents. A memorandum dated 6 February 2002, from the Chief of the Procurement Division to all staff members of the Division, indicated that the level of approval required to issue solicitation documents was based on the estimated value of the procurement action. However, the majority of the procurement officers interviewed during the audit were not aware of that memorandum. As a result, in seven cases reviewed the solicitation

documents were signed by procurement officers who did not have the appropriate level of authority.

14. There were inconsistencies in the use of the request for proposal and the invitation to bid solicitations in connection with the application of best value for money. OIOS found instances, in the sample selected, when the Procurement Division did not document why the invitation to bid or the request for proposal solicitation method had been used. In the maintenance and disposal services category, OIOS reviewed three cases. The Procurement Division used an invitation to bid in one case and a request for proposal in two cases. The two latter cases used the best value for money evaluation method. There was no clear explanation why the solicitation methods were different. OIOS also reviewed two cases involving system contracts for fax machines. In one case, the Procurement Division used an invitation to bid and in the other a request for proposal. The latter case used the best value for money evaluation method. The solicitation methods were different because the interpretations of the procurement officers differed as to how the cases should be handled.

15. In conclusion, the Procurement Division procedures did not ensure that the selection of the solicitation type was always valid, authorized and documented. Therefore, objectivity, or fairness, may not have been assured in the vendor selection process. *The Department of Management disagreed with the OIOS conclusion and stated that each solicitation method (invitation to bid, request for quotation or request for proposal) provides for a fair, transparent and competitive procurement process. In addition, many solicitation exercises are reviewed by the Headquarters Committee on Contracts, thereby providing an additional layer of scrutiny on the procurement process.* OIOS reiterates the view that the procedures of the Procurement Division should ensure that the selection of a solicitation method should follow pre-established, adequate procedures, since the solicitation type determines if the best value for money evaluation method will or will not be applied. Of particular significance to this issue is the fact that emphasis on bid costs varies depending on which solicitation method is chosen, creating the inherent risk that a particular solicitation method may favour a certain group of vendors.

V. Inconsistent use of best value for money in request for proposal solicitations

16. According to the Manual, all request for proposal solicitations should be awarded using the best value for money evaluation method. The Procurement Division issued a total of 110 tenders in 2004 and 2005 with the evaluation based on the best value for money (see A/60/846/Add.5). However, another list of all request for proposal solicitations awarded during 2004-2005 obtained from the Procurement Division included more than 300 tenders. The Procurement Division was unable to explain this significant discrepancy, which OIOS attributed to the lack of available capacity in the Procurement Division to reconcile the two lists. However, in the view of OIOS, it is likely that the discrepancy is explained by the fact that the majority of request for proposal solicitations were not awarded based on the best value for money evaluation method. Therefore, the best value for money evaluation method may have been used inconsistently for request for proposal solicitations.

17. For example, OIOS reviewed three procurement cases in the consulting category for which the request for proposal solicitation method was used, and found that the best value for money evaluation method (including weights and criteria) was applied in only two of the cases. The Procurement Division did not provide a satisfactory explanation as to why the best value for money evaluation method was not used in the remaining case.

18. The selective use of the best value for money evaluation method presents the risk that vendor evaluation criteria may be inconsistent. Therefore, any deviation in the use of the best value for money evaluation method for request for proposal solicitations should, at a minimum, be authorized and documented.

VI. Need for strengthening bid evaluation procedures

19. According to the January/May 2006 version of the Manual, to conduct technical evaluations of proposals, an evaluation committee should be established by the procurement officer for procurement cases greater than $200,000. Generally, the committee should consist of at least three members, including the relevant procurement officer, a representative of the requisitioning office, and a qualified staff member or an external consultant. Seven of the 20 procurement cases selected for review by OIOS involved request for proposal solicitations evaluated based on the best value evaluation method in amounts exceeding $200,000. OIOS found that evaluation committees had been established in only two of these cases. Furthermore, in one of the two cases, although three individuals signed the technical evaluation, it was impossible to determine who the members of the committee were. In the other case, all of the members appeared to be staff members from the requisitioning office, including the requisitioner. In both cases, the committee had been established by the requisitioning office and not the procurement officer.

20. The Manual prescribes that a source selection plan must be finalized before the solicitation is issued. The plan should provide an objective approach to the methodology of selecting the best source to fulfil the established need. Depending on the complexity of the acquisition, the plan may be summarized in a few lines, or consist of a precise description of the evaluation steps necessary to ensure the best value to the Organization. At this time, the type of solicitation and evaluation method should be determined. None of the 20 sample cases selected for the audit used a source selection plan. Also, the basis for selecting which methodology to use was not formally documented.

21. OIOS also found that the Manual's provisions regarding the establishment of an evaluation committee (section 11.6 (6) b) contradict the requirement that the source selection plan must be completed by the evaluation committee before the solicitation documents are issued. The Manual indicates that the evaluation committee can be constituted no later than the bid closure date, which can be after solicitation documents are issued. There was therefore no single criterion for the establishment of the evaluation committee.

22. The Manual also contains conflicting guidance regarding who should perform the technical evaluations of proposals received by the Procurement Division in response to request for proposal solicitations with an estimated value of less than $200,000. Section 11.6 (5) c of the Manual states that for submissions in response to such request for proposal solicitations, the procurement officer shall perform a

detailed evaluation of all technical factors or, as appropriate, send the technical proposal to the requisitioner to perform the technical evaluation. However, section 11.6 (2) b of the Manual indicates that the procurement officer shall request the requisitioner and/or end-user to evaluate the technical compliance of the submission with the specifications/requirements. There is no mention of whether this procedure relates to request for proposal solicitations for products or services with an estimated value above or below $200,000. In the opinion of OIOS, the Manual should clarify who is to perform the technical evaluations of proposals in response to request for proposal solicitations with an estimated value of less than $200,000 in order that responsibility for the use of best value for money in these cases is properly assigned. In all cases, technical evaluations were performed but the overall evaluations, including both the technical scores and the financial scores, were not properly documented.

23. In the majority of the sample cases reviewed by OIOS, it was impossible to determine if the criteria, weights, sub-weights and minimum scores were established at the time of the initial requirement and prior to the issuance of the solicitation document and the evaluation of proposals. These evaluation elements were not supported with dated documentation. Dating the documentation related to the evaluation process is important in order to maintain the integrity of procurement actions. Additionally, in the majority of the cases reviewed by OIOS, the solicitation and evaluation documents showed that the evaluation criteria for the same type of procurement action were not the same. In some cases, it was difficult to determine how the criteria in the solicitation and evaluation documents related to each other. Maintaining the consistency of the criteria, weights, sub-weights and minimum scores for a procurement action throughout the process is critical.

24. Furthermore, OIOS found that:

(a) In some cases, not all of the criteria used in the procurement process were meaningful;

(b) There was not sufficient guidance on how to include weights, sub-weights and minimum scores in the solicitation document. The practices of various procurement officers differed;

(c) It appeared that the weights and sub-weights were not always used in performing the evaluation as they were not documented;

(d) In one case, an invitation to bid solicitation document was written like a request for proposal, including detailed evaluation criteria. However, only a general review was performed by the requisitioner to indicate whether the bids were technically proficient. No weights or scores were used.

VII. Inconclusive results of the use of best value for money

25. In all cases tested by OIOS, where the best value for money evaluation method had been used, the contracts were awarded to the lowest bidders. However, as discussed above, the Manual's provisions are inconsistent in respect of the selection of a solicitation method, the establishment of the evaluation committee, and the preparation of a source selection plan and evaluation criteria. Furthermore, documentation of the procurement process was poor. OIOS therefore concludes that the best value for money principle is inconsistently applied by the Secretariat, but is

unable to draw specific conclusions as to whether the best value for money principle in the Secretariat has been used contrary to the principles of fairness, integrity and transparency, effective international competition and the interest of the United Nations, in evaluating and awarding procurement contracts.

26. *The Department of Management agreed that the Procurement Manual should be revised in order to eliminate any inconsistencies and that documentation of the procurement process needs to be improved. However, the Department was of the opinion that these anomalies do not necessarily imply that the best value for money principle is inconsistently applied by the Procurement Division. Furthermore, as the best value for money principle is embedded in the procurement process, adherence to it may be achieved by applying different evaluation methods that take into account the type of solicitation (request for quotation, invitation to bid or request for proposal).* OIOS wishes to clarify that its conclusion is based on (a) the finding that some key procedures in the Procurement Manual supporting the application of the principle are inconsistent; and (b) instances of inconsistent application of these procedures as discussed in paragraphs 11 to 24 above.

VIII. Effective international competition and best value for money

27. In its resolution 61/246, the General Assembly requested "the Secretary-General to report comprehensively to the General Assembly at its sixty-second session on the principle of best value for money and its implementation in United Nations procurement, including, inter alia, its possible effect on the diversification of vendors and suppliers and on efforts to improve procurement for vendors from developing countries and countries with economies in transition". OIOS is providing the following analysis in anticipation of the report of the Secretary-General.

28. Effective international competition presumes that all suitable and available sources of goods and services are given an opportunity to participate in the Organization's procurement process. This principle should also ensure that all suitable and available vendors are considered without bias according to their ability and capacity to provide goods and services needed by the Organization. Guidelines have been issued to United Nations procurement officers on how to achieve effective international competition. In particular, section 8.2 (4) f of the Procurement Manual stipulates the following:

> If the requisitioner has provided the procurement officer with more detailed information related to the requirement, the procurement officer should also issue a Request for Expressions of Interest (EOI). The EOI shall be in accordance with the following:
>
> (a) The EOI shall give a detailed description of the requirements of the forthcoming solicitation. The EOI may include objective criteria, which shall not be used to single out or favour a specific vendor(s) or product(s), but rather to identify appropriate vendors that could potentially fulfil the requirement(s). It may also include a questionnaire, as developed by the procurement officer in cooperation with the requisitioner;
>
> (b) The EOI shall be advertised on the UN Internet page. In addition, it shall be sent by email to all Permanent Missions to the UN, and it shall be

otherwise distributed in a manner that, in the opinion of the procurement officer, would lead to the most beneficial responses thereto.

29. OIOS specifically reviewed 15 procurement cases (of the 20 forming the audit sample) and found that of the 10 cases where copies of the request for expressions of interest were found in the files six indicated the advertisement period was less than the required period of time; there was no clear documentation indicating why the period was shortened. In all cases, there was no indication in Procurement Division files that the request for expressions of interest had been sent to all Permanent Missions to the United Nations. *The Department of Management clarified that a copy of the request for expressions of interest is sent to all Permanent Missions by the Procurement information technology support team by an automated process, and therefore the procurement files contain no evidence.* In the view of OIOS, procurement files should present sufficient evidence that required procurement procedures have been properly implemented.

30. The Manual stipulates that the procurement officer shall invite all registered vendors under the appropriate commodity codes to submit a bid or proposal, unless a limitation in the number of invited vendors is accepted on an exceptional basis by the relevant section chief. OIOS tested the application of this requirement in the above-mentioned 15 procurement cases and found that in 8 cases not all of the vendors for the related commodity code had been included in the list of invitees; only 2 of these cases contained the written approval of the applicable section chief, but lacked a specific explanation of the conditions for short-listing. In four cases, OIOS could not determine whether all vendors had been included, due to insufficient information in the file, and, in one case, the list of invitees was not in the file. Only two cases contained sufficient evidence showing that all vendors for the related commodity code were included in the list of invitees.

31. The Manual also stipulates specific circumstances when the number of vendors to be invited to participate in making proposals can be limited. These limitations should be exceptional, have the written approval of a Section Chief or Chief Procurement Officer and ensure that equitable geographical distribution is upheld to the extent possible. In all cases, the procurement officer should certify that the list of prospective vendors to whom the solicitation documents are distributed represents all registered vendors for the required deliverable, taking into account the approved limitations. If the number of invitees has been limited, the procurement officer should certify that the Chief of Section, the Chief of the Procurement Division or the Chief Procurement Officer has approved such short-listing and indicate the conditions used for short-listing. Such written approval to limit the number of invitees should be registered in the contract file.

32. Unregistered vendors may respond to the advertisement of a request for expression of interest. However, to be on the list of invitees who receive the solicitation document, these vendors should be provisionally registered. The reasons why unregistered vendors were included in the list of invitees shall be stated and approved in writing by the Chief of Section. OIOS found that the system-generated lists of invitees do not identify whether a vendor is fully registered or only provisionally registered. The only indications on file that provisionally registered vendors had been included in the lists of invitees were the requests to register them and/or confirmations of the registration received by the procurement officers from the Support Services Section. In the eight cases of the 15 involving provisionally

registered vendors, the lists of invitees were signed by the respective section chiefs in only two cases. The others were signed by lower level staff. In all of these cases, the reasons for inviting provisionally registered vendors were not documented.

33. The Manual establishes a minimum number of vendors from whom proposals should be solicited, depending on the estimated cost of the procurement award. OIOS found that in 11 of 15 cases, the minimum number of vendors was reached; in three cases, the minimum number of vendors was not achieved; and, in one case, there was no list of invitees in the file. Since there was no relevant documentation in the files concerning this issue, it was impossible to determine how and why the list of invitees was limited. *The Department of Management commented that the minimum numbers of vendors indicated in the Manual should be considered as indicative rather than required.* OIOS, however, is of the view that considering the criticality of establishing the list of vendors from whom proposals should be solicited, the related process should be fully documented in the file and ensure conformity with the Procurement Manual to the extent possible.

34. The above audit findings showed that the processes used by the Procurement Division do not ensure effective international competition. There is no clear audit trail, due to the absence of necessary documentation in the procurement files, including a detailed record of all actions taken, which should be maintained for each procurement case, in accordance with the Manual. *Although the Department of Management acknowledged that opportunity should be given to all suitable and available vendors to participate in the United Nations procurement process, it disagreed with the conclusion of OIOS as to how the lack of documentation in certain cases or absence of a completed procedural element can lead to a lack of effective international competition. The result of international competition can be seen in the geographically varied responses received and the awards made to a varied group of vendors. The Procurement Division made awards to vendors from 73 countries in the period 2004-2007. In addition, the Department of Management stressed that OIOS should note that the vendor plays a critical role during the registration process in selecting commodity and/or service codes, which influence the sourcing of the requirements. The Department nonetheless agreed that the documentation of procurement actions can and should be improved.* While acknowledging the Department's comment, OIOS reiterates that the absence of adequate processes significantly reduces the level of assurance that effective international competition is fully achieved.

IX. Procurement from developing countries and countries with economies in transition

35. General Assembly resolution 54/14 addressed the question of preferential treatment of vendors from developing countries and countries with economies in transition. In the resolution the General Assembly requested the Secretary-General "to examine ways to increase opportunities for developing countries in the awarding of procurement contracts, in particular for least developed countries, African countries and countries with economies in transition, taking into account the experience of preferential treatment in this regard in the funds and programmes of the United Nations organizations and other intergovernmental institutions, and to report thereon to the General Assembly in his next report on procurement reform".

The General Assembly's recent discussions highlight further concern that the application of the best value for money principle may result in fewer procurement awards made to vendors from developing countries and countries with economies in transition.

36. OIOS surmises that the General Assembly's concern originates from the fact that best value is generally associated with higher quality products and services. The Secretariat has undertaken extensive outreach efforts mainly in the form of business seminars to stimulate and facilitate the registration of vendors from developing countries and countries with economies in transition. These efforts will indeed be negated if there is a perception among vendors in these countries that they will not be competitive for bids using best value for money.

37. The Procurement Manual does not include any provisions concerning special consideration of vendors from developing countries and countries with economies in transition. On the other hand, the Manual requires that equitable geographical distribution be reflected in the final list of invitees to bid, but does not define the term "equitable" or how to achieve it in practice. There was no indication in the files as to whether and how equitable geographical distribution was achieved. It seems reasonable to assume that increasing procurement from developing countries and countries with economies in transition contributes to achieving equitable geographical distribution of vendors. In the view of OIOS, the General Assembly may wish to clarify this assumption to allow the Secretariat to adjust procurement policies and procedures accordingly, if required.

38. The Procurement Division includes a vendor's adherence to the Global Compact[5] among the evaluation criteria for bids using best value for money. This practice constitutes preferential treatment of vendors presenting attributes valued by the United Nations. OIOS has not reviewed the basis for and the extent of this practice, but believes that it may be relevant, for comparison purposes, to future discussions of what constitutes best value for the United Nations.

39. *The Department of Management was of the view that the significance of procurement from developing countries and countries with economies in transition and its likely impact on the ongoing procurement reform effort justify the need for a more in-depth review. Nevertheless, the Department of Management agreed that proper use of the best value for money principle contributes to the increase of procurement opportunities for vendors from developing countries, as was recently proven by an award of a large contract to a vendor from a developing country that was previously awarded to a vendor from a developed country.* In the view of OIOS, the issue of preferential treatment of vendors from developing countries and countries with economies in transition is relevant to the audit of the best value for money principle in United Nations procurement, and therefore part of the mandate of the General Assembly given to OIOS in resolution 60/259. The importance of this issue warranted coverage in the present report. In particular, as stated in paragraph 37 above, OIOS is of the opinion that the General Assembly may wish to clarify if

[5] The United Nations strongly encourages all vendors to actively participate in the Global Compact, a United Nations initiative. The Global Compact is a voluntary international corporate citizenship network initiated to support the participation of both the private sector and other social actors to advance responsible corporate citizenship and universal social and environmental principles to meet the challenges of globalization.

the concept of best value in United Nations procurement should include consideration of vendor country of origin.

X. Management information concerning the use of the best value for money principle

40. In order to ensure that the best value for money principle is consistently applied in the Organization's procurement practices, it is essential that management has reliable and comprehensive information on its implementation. Currently, such information is not available.

41. The report of the Secretary-General on investing in the United Nations (A/60/846/Add.5) indicated that in 2004 and 2005, the Procurement Division issued a total of 110 tenders with the evaluation based on the best value for money methodology resulting in the award of contracts totalling approximately $561.8 million. However, in response to the question raised at the informal session of the Fifth Committee held on 14 March 2005, the Procurement Division reported that 42 contracts totalling approximately $381.6 million were awarded in 2004 on the basis of the best value to the Organization. OIOS was unable to match any of the items on the list of 42 contracts to the list of 110 tenders, which supposedly included all 2004 procurement awards on the basis of best value. Furthermore, the list of 110 tenders shown as evaluated based on the best value for money methodology in 2004 and 2005 does not appear to be entirely accurate. OIOS identified the following inaccuracies:

(a) One case was still in process and had not been awarded ($2,237,359);

(b) In one case, the procurement was cancelled ($28,668,200);

(c) In one case, the award was not based on the best value for money evaluation methodology ($2,132,999);

(d) One case was listed twice ($65,000).

42. The procurement officers tried to identify manually those contracts for which they used the best value for money evaluation method for the period 2004-2005, but the information was not always consistent or accurate. The main reason for these errors, in the view of OIOS, was that the Procurement Division had not developed a capacity in the Reality system (the computerized procurement system used by the Procurement Division) to identify contracts awarded based on the best value for money evaluation method.

43. Another limitation of the information system is that it only captures data related to procurement at Headquarters. Procurement actions at offices away from Headquarters and peacekeeping missions are not captured by the system and, therefore, overall data cannot be easily obtained. In the absence of this information, it is impossible to determine how widely the best value for money principle is applied in the procurement practices of the Organization.

XI. Comprehensive improvement plan

44. The audit findings were discussed with Procurement Division management, which informed OIOS of a comprehensive improvement plan focusing on the following:

(a) Complementing the current best value for money policy, with the objective of providing a clear understanding of the principle and guidelines on how to apply the principle within the United Nations procurement activity;

(b) Clarifying and revising the current Procurement Manual regarding best value for money principle based on the above policy;

(c) Developing documentation guidelines and collection templates to capture all aspects of best value for money during the procurement process, and acknowledge the value added by the procurement staff during the best value for money cycle;

(d) Implementing a comprehensive training curriculum for current and future Headquarters and Mission procurement staff, including a specific module on best value for money.

XII. Recommendations

45. OIOS has taken the Procurement Division's improvement plan into account in formulating the following three recommendations to further address the issues highlighted in the present report. The Department of Management has coordinated the Secretariat's response to the OIOS audit and advised that it supported all three OIOS recommendations.

Recommendation 1

46. The Secretary-General should prepare, and submit to the General Assembly for consideration, a detailed proposal for a mechanism to define, and monitor the use of, best value for money principle. This mechanism should ensure, inter alia, that a clear definition of the best value for money principle is formally approved by the General Assembly as part of the United Nations Financial Regulations and Rules (AH2006/513/03/01).

47. *The Department of Management recognized that, due to its holistic nature, the application of the best value for money principle in procurement may be difficult to assess and agreed that further clarification of the definition and a mechanism to monitor its use would contribute to a better understanding and acceptance of the best value for money principle.*

Recommendation 2

48. The Procurement Division should strengthen its management controls to ensure that its personnel follow the prescribed procurement processes for proper application of the best value for money principle. All necessary documentation should be prepared, reviewed and filed in order to maintain a clear audit trail for procurement actions (AH2006/513/03/02).

49. *The Department of Management acknowledged that the filing and documentation of procurement practices and decisions in relation to the best value for money principle could be further improved and that it will take active steps in that regard.*

Recommendation 3

50. **The Department of Management should identify reporting requirements that allow Procurement Division management to assess progress in implementing the best value for money principle in procurement (AH2006/513/03/03).**

51. *The Department of Management agreed that reporting requirements should be identified in order to allow Procurement Division management to assess progress in implementing the best value for money principle in procurement.*

(*Signed*) Inga-Britt **Ahlenius**
Under-Secretary-General for Internal Oversight Services